

LCH.CLEARNET

Our Ref: AML/3226gb/CFTC DCO

24 March 2004

Ms Jean A Webb, Secretary
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington DC 20581
USA

Dear Ms Webb,

LCH : Application for Amendment to CFTC's DCO Order – response to comments of the CME

This letter responds to the views of the Chicago Mercantile Exchange Inc. (CME), expressed in its letter to the Commission dated 12 March 2004, on our application for amendment.



awarded to The London Clearing House Limited

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The first point raised by the CME (paragraph 2 of its letter) relates to the margining of “proprietary accounts” and notably the recognition, in the margining of such accounts, of risk offsets between “positions on European and US exchanges cleared by LCH”. For clarification, it is the intention of LCH to recognise such risk offsetting positions in its margining of proprietary accounts. In terms of detail, we intend to build on the approach to proprietary account margin offsets introduced in partnership with the CME and LIFFE in 1999 (with respect to eurodollar and euribor futures contracts) and approved by the Commission and the UK Financial Services Authority.

The further points raised by the CME relate to “US Customer Accounts” as opposed to “proprietary accounts”.

The CME firstly questions the clarity of our statement that “Customer segregated accounts for such US Exchange business .. will not be commingled with . . . customer accounts for non-US Exchange business . . .” in respect of the effect of any margin offsets. We can clarify that we do not propose to offer margin offsets between US Customer Account positions and non-US customer account positions. Our understanding and

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interpretation is that the provision of any such offsets would run counter to regulatory requirements in both the US and UK.

With respect to the CME's second question regarding LCH's "ring fencing" or segregation of US Customer Accounts, the "ring fencing" memorandum concludes that in the event of the insolvency of LCH or an LCH clearing member (1) the US Customer Accounts of each LCH clearing member will be kept separate from any other accounts maintained by LCH and the balance in such US Customer Accounts will not be commingled or offset with the balance on any other accounts maintained by LCH and (2) the "ring fencing" arrangement will be effective under English law. Accordingly, it is our legal analysis that US Customers will not be disadvantaged as a result of the "ring fencing" arrangement.

If you should have questions or comments, please contact me (andrew.lamb@lchclearnet.com) or Arthur Hahn (arthur.hahn@kmzr.com), Michael Philipp (michael.philipp@kmzr.com) or Heidi Rauh (heidi.rauh@kmzr.com).

Yours sincerely

A handwritten signature in blue ink that reads "Andrew Lamb". The signature is written in a cursive, flowing style.

A M Lamb
Chief Executive, LCH.Clearnet Ltd